

## **MINUTES**

### **MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN BOB DEPRATU**, on March 27, 2001 at 8:00 A.M., in Room 405 Capitol.

#### **ROLL CALL**

**Members Present:**

Sen. Bob DePratu, Chairman (R)  
Sen. John C. Bohlinger (R)  
Sen. Mack Cole (R)  
Sen. Pete Ekegren (R)  
Sen. Jon Ellingson (D)  
Sen. Bill Glaser (R)  
Sen. Dan Harrington (D)  
Sen. Emily Stonington (D)

**Members Excused:** Sen. Alvin Ellis Jr., Vice Chairman (R)

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Branch  
Deb Thompson, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: Senate Bill 519, 3/26/2001  
Executive Action: Senate Bill 519 Pass as amended 6-0; Senate Bill 511 as amended 9-0; Senate Bill 505 as amended 9-0; Senate Bill 501 as amended 9-0; Senate Bill 514 as amended 9-0; SB 513 Pass as amended 8-1; Senate Bill 494 Pass as amended 8-1; Senate Bill 119 Pass as amended 5-4

HEARING ON SENATE BILL 519

**Sponsor:** SENATOR GLENN ROUSH, SD 43, Glacier County

**Proponents:** Patrick Montalban, Northern Montana Oil and Gas Association; Jerry Kroft, Kroft Petroleum, Cutbank; Curt Dahlgaard, Somont Oil Company; Jerry Kennedy, Kipling Energy; John Balkenbush, Balko, Conrad; Carl Winegar, Secretary of the Montana Oil and Gas Association; Gary Feland, Kipling Energy, Shelby; Gail Ambercrombie, Montana Petroleum Association

**Opponents:** None

**Opening Statement by Sponsor:** SENATOR GLENN ROUSH, SD 43, presented the bill. He explained the bill related to revising the taxation of oil on exempt stripper well production. He explained the exempt stripper well production. This related only to the price of oil as provided under the exemptions which meant production of three barrels a day or less, oil only. He noted there were a lot of these wells in Northern Montana that were producing at cost. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 4.5}**

**Proponents' Testimony:** Patrick Montalban, representing the Northern Montana Oil and Gas Association, testified in support of the bill. He presented written testimony. **EXHIBIT(tas69a01)** The price of oil has widely fluctuated in the last two years. He said stripper wells were strained economically and a class of their own. These wells have produced forty to fifty years. He noted the classic oil production graph in the handout that showed the average decline of a well over the years. The wells have already paid the majority of taxes. This is now the end of the life of the well. It is important to keep the wells producing for jobs. Population in rural communities in Northern Montana has declined. The number of producing wells in 1999 was 1,843 wells in Northern Montana; South and Central Montana around 2,200 wells. The average production in these areas in Northern Montana is 2.2 barrels. The bill is important to the small independents in Northern Montana. He described the price of oil on the West Texas Intermediate and the local price in the field was far less. He stressed the adjustment in the price of oil in Northern Montana was made due to the gravity of the oil. He said it was important to get the tax lifted to shore up the economics of these stripper wells. **{Tape : 1; Side : A; Approx. Time Counter : 4.5 - 13.4}**

**Jerry Croft**, President of Croft Petroleum Company, testified in support of the bill. He presented written testimony. He described the difference in prices between West Texas

Intermediate, the price traders base their contract prices, and the realistic price in Montana which is far less due to field gravity of the oil. He pointed out that the big oil companies had all left Montana and what remained of the producers were family businesses. **EXHIBIT (tas69a02) {Tape : 1; Side : A; Approx. Time Counter : 13 - 21.5}**

**Curt Dahlgard**, Somont Oil Company, Inc., testified in support of the bill. He described the positive effects of the tax breaks were job creation. He said their company had increased with three additional engineering jobs and they had drilled six new wells. He pointed out that every penny of the tax exemption had gone back to the local economy. **{Tape : 1; Side : A; Approx. Time Counter : 21.5 - 23.5}**

**Jerry Kennedy**, with Kipling Energy in Shelby, Montana, spoke favorably of the bill. He supported the bill because of the pricing aspect. The West Texas Intermediate price does not reflect anywhere close to what Montana companies receive for their oil. Yesterday, the price of West Texas Crude was \$27.43, where Montana's posted price was \$20.85. This bill would put it back into perspective. The price of oil this quarter is so low that the taxes will not be available anyway. The idea of a tax on such an unfair price is prohibitive for the local oil companies to produce. Right now, the average well in their company produces .8 barrels a day and there are seven employees. They were looking hard now at laying employees off, especially if the tax stayed in place. The stripper production is expensive to operate with very little profit for the investment made. He asked that the exemption be made. **{Tape : 1; Side : A; Approx. Time Counter : 23.9 - 25.5}**

**John Balkenbush**, Balko, Inc., Conrad, Montana, spoke for the bill. He explained they were the big producers of the two barrels per day. They produce about 75 stripper wells and a small gas well that supported five families. Since the price of oil increase and the tax break they added one employee. The price of oil was relevant to that job - at \$20 he stays on, otherwise he is laid off. He was in support of the bill. **{Tape : 1; Side : A; Approx. Time Counter : 25.4 - 27.2}**

**Carl Weniger**, Secretary of the Northern Montana Oil and Gas Association, and independent operator, spoke for the bill. He stated he had been in the industry for 27 years. The big oil companies could not handle the low prices when considering their high administration costs. He pointed out the tax break allowed him to put money into the wells. He pointed out there were about 1,200 idle wells in the Kevin Fields, that could not make enough money for people to justify operating them. The tax relief in

this bill would allow for more operations to continue. **{Tape : 1; Side : A; Approx. Time Counter : 27.2 - 30.3}**

**Bob Gilbert**, representing small producers, testified in support of the bill. He pointed out this represented economic survival of that industry. **{Tape : 1; Side : B; Approx. Time Counter : 0 - 2.3 (This side did not record-Tower tapes are available)}**

**Gail Ambercrombie**, representing the Montana Petroleum Association, testified in favor of the bill. She noted that the West Texas Intermediate price was always the trigger. However, with the price differential there was a need for a fair trigger for the Montana producers. She supported the legislation.

**Opponents' Testimony:** None

**Informational Testimony:** None

**Questions from Committee Members and Responses:** **SENATOR BOHLINGER** noted the importance of keeping jobs in Montana. He asked how much oil workers were paid and the number of people who would be effected. **Mr. Montalban** replied the average oil field worker was paid \$30 thousand dollars and engineers made \$40-50 thousand dollars. **{Tape : 1; Side : B; Approx. Time Counter : 2.3 - 8.5}**

**SENATOR STONINGTON** asked why the West Texas Crude number was used and what caused the discount for Montana products. **Mr. Montalban** described the price swings and how the gravity adjustment was valued. The sulphur content as well as the trucking distances were factors in the price. Isolation from market and also non tax on Canadian oil factored in the prices of Montana oil. **{Tape : 1; Side : B; Approx. Time Counter : 8.5 - 15.6}**

**SENATOR STONINGTON** asked about the stripper tax rates. **Mr. Montalban** noted the 1999 Legislature had created two exemption rates - one that affected wells producing 0-3 barrels a day and one rate that affected those producing 4-15 barrels. This bill would only affect those small stripper wells that produced under three barrels a day. **{Tape : 1; Side : B; Approx. Time Counter : 15.6 - 18.2}**

**SENATOR ELLINGSON** asked about employment possibilities and also what tax rate was being considered. **Mr. Montalban** noted the small independent companies had been gaining in employment. He described the tax rate had been determined by the net proceeds until 1985 when it went to a flat 12.8%.

**SENATOR BOHLINGER** asked if more idle wells would open up if the higher target price moved up to the \$30-38 dollar range. **Mr. Montalban** thought 25-50% would be reopened if that occurred.

**Closing by Sponsor:** **SENATOR ROUSH** closed. He described the high cost of well production. There may be increased production, however the bill only addressed those wells producing less than three barrels of oil a day. He pointed out the higher costs of utilities would be a factor in the future. Most of the wells in question had been drilled in the 1930's. The refineries had gone. The exemptions would help enhance production and the job market. *{Tape : 2; Side : A; Approx. Time Counter : 0 - 2}*

**EXECUTIVE ACTION ON SENATE BILL 119**

**SENATOR GLASER MOVED DO PASS. HE MOVED AMENDMENT #1 BE ADOPTED.** These amendments were dated March 23, #011901.agp.

**EXHIBIT (tas69a03)** *{Tape : 2; Side : A; Approx. Time Counter : 6.3 - 7}*

**SENATOR ELLINGSON** asked for an explanation for #8 regarding his concern that the money go to the General Fund. **Mr. Heiman** pointed out this money was earmarked. **SENATOR ELLINGSON MOVED TO SEGREGATE #8 FROM THE AMENDMENT.** The question was called. The motion **PASSED** unanimously. *{Tape : 2; Side : A; Approx. Time Counter : 7 - 10.6}*

**SENATOR HARRINGTON** noted the amendments were very important but he had a problem with the ballot issue. He felt it was the Legislature's responsibility to fund education. **SENATOR STONINGTON** commented that amendment #11 would not provide the same financial benefit. She did not support this as it was not a new source of funding for education. *{Tape : 2; Side : A; Approx. Time Counter : 10.6 - 14.7}*

**SENATOR GLASER** pointed out they did not plan on the tobacco tax to fund education. **HE MOVED THE BILL AS AMENDED.**

**SENATOR EKEGREN** said he was against the bill because it was asking 75% to vote a tax on 25% of the people. He felt it was unfair to do this. A general tax that everybody paid was needed to fund education. Low income people use tobacco the most and this tax would hurt them. *{Tape : 2; Side : A; Approx. Time Counter : 14.7 - 30}*

**SENATOR ELLINGSON** said he was in favor of adding more money to the General Fund, however he objected to the election portion of the bill. He pointed out the tobacco lobby would come in well organized to fight the issue. This bill would also raise taxes on cigarettes which would be tough on older folks, though it may have a profound effect on teenagers. **SENATOR EKEGREN** felt a 25 cent increase would not stop teenagers.

The question was called. The bill **PASSED** as amended 5-4.

#### EXECUTIVE ACTION ON SENATE BILL 494

**SENATOR GLASER MOVED THE AMENDMENT #049408.alh. EXHIBIT(tas69a04)**  
**SENATOR STONINGTON** asked how much tax revenue was collected on the roaming charges. **Mr. Alme** described the Telecommunications Excise Tax. **EXHIBIT(tas69a05)**

The question was called on the amendment. The amendment was **ADOPTED** 8-1 with **SENATOR HARRINGTON** voting no.

**Mr. Heiman** distributed amendment #049410.alb. **EXHIBIT(tas69a06)**  
**SENATOR STONINGTON MOVED TO ADOPT THE AMENDMENT.** The question was called. The amendment was **ADOPTED** unanimously.

Amendment #049409.alh was distributed. **EXHIBIT(tas69a07)** **SENATOR ELLINGSON MOVED THE AMENDMENT BE ADOPTED.** The motion was **ADOPTED** unanimously.

**SENATOR GLASER MOVED THE BILL AS AMENDED. SENATOR STONINGTON** said she was going to vote against the bill but had changed her mind as the bill was coordinated with the federal law. The question was called. The motion **PASSED** 8-1 with one no vote by **SENATOR HARRINGTON.** {Tape : 2; Side : B; Approx. Time Counter : 0 - 30}

#### EXECUTIVE ACTION ON SENATE BILL 513

**SENATOR STONINGTON MOVED THE AMENDMENT #051301.alh. EXHIBIT(tas69a08)** The question was called. The amendment was **ADOPTED** unanimously.

**SENATOR STONINGTON MOVED THE BILL AS AMENDED.** The motion **PASSED** 8-1 with **SENATOR GLASER VOTING NO.**

**EXECUTIVE ACTION ON SENATE BILL 519**

**SENATOR STONINGTON MOVED THE BILL AND THE AMENDMENT.** The amendment was **ADOPTED** 6-0. She **MOVED THE BILL AS AMENDED.** The motion **PASSED** 6-0.

**ADJOURNMENT**

Adjournment: 10:18 A.M.

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SEN. BOB DEPRATU, Chairman

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DEB THOMPSON, Secretary

BD/DT

**EXHIBIT (tas69aad)**